

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
High-cost Universal Service Support	)	WC Docket No. 05-337
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	

**U.S. DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE REPLY  
COMMENTS ON THE FCC PROPOSALS FOR INTERCARRIER COMPENSATION  
AND UNIVERSAL SERVICE REFORM**

The U.S. Department of Agriculture Rural Utilities Service (RUS) makes loans for the improvement and expansion of telecommunications services, including broadband, to rural incumbent local exchange carrier (ILECs) service providers through its Infrastructure Loan Program. There are currently 509 active borrowers with over \$3.7 billion in principal outstanding and \$2.8 billion in un-advanced commitments. Just this past fiscal year, RUS provided \$675 million in Infrastructure Loan Program loans for system-wide improvements, upgrades and expansions. And, we are happy to report, the majority of the new construction involved fiber to the home projects. Most of these construction projects required Universal Service Fund (USF) resources to be feasible and to allow the government to be repaid in full on its loans.

As a complimentary source of funding to the USF programs, the RUS Infrastructure Loan Program has been helping finance rural telecommunications infrastructure in areas that otherwise would not be built due to extremely high costs. As the Federal Communications Commission (the Commission) considers actions that will impact the current revenue streams of most rural ILECs, RUS would like to provide you with information that may help quantify the extent to which any significant revenue loss (absent a compensating adjustment) may impact our nearly \$4 billion taxpayer-financed loan portfolio. As you are aware, many rural ILECs have relied upon these revenues to maintain operations and to continue with broadband deployments in high-cost rural service territories.

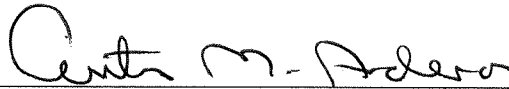
In a recent study of 350 borrowers reporting to RUS as of December 31, 2007, we calculate that 265 of those borrowers need more than \$20 per month per customer to

remain financially viable. Those 265 borrowers have approximately \$2.1 billion in loans outstanding to RUS. Further, 137 of these borrowers need over \$50 per month per customer. Depending on the severity of any revenue reduction, borrowers may be adversely impacted in terms of their ability to make debt service payments.

As mentioned earlier, there is a significant amount of unadvanced financing that has been approved for these companies to continue the deployment of broadband service to rural communities lacking access; the same communities that the Commission is concerned about. The feasibility for these loans was based on the reliance of continued universal service funding in many instances. RUS is concerned that "frozen High Cost Support,"<sup>1</sup> particularly at the company level, may prove detrimental to our ability to advance these loans funds, as the financial stability of these companies will become uncertain. A recent analysis of borrowers receiving loans shows that 53% of those loans would not be feasible with frozen USF. If toll revenues are frozen (interstate and intrastate access revenues, interstate and any intrastate USF, and end-user SLC charges), two-thirds of the loans are not feasible. Our main objective is, of course, to ensure that rural residents and businesses continue to receive the same quality of services as their urban and suburban counterparts, at affordable rates. The agency is concerned there is a possibility that certain proposed actions would cause delay or preclude broadband deployment to rural communities at a time when that investment is needed the most.

As in past comments and correspondence, thank you for the opportunity to share this information with you and the Commission. If we can provide other statistics, data, or program information, please do not hesitate to contact me. Rural Development looks forward to working with the Commission as we pursue the mutual goal of increased access to broadband services nation-wide and seek ways to ensure that comparable services in rural America are available, as those enjoyed by suburban and urban consumers.

Respectfully Submitted,



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<sup>1</sup> Consisting of High Cost Loop Support, Safety Net Additive and Safety Valve Support, Interstate Common Line Support and Local Switching Support.

## CERTIFICATE OF SERVICE

I, James M. Andrew, certify that a copy of the foregoing Reply Comments of the U.S. Department of Agriculture Rural Development in WC Docket No. 05-337, CC Docket No. 96-45, and CC Docket No. 01-92, was served on this 22nd day of December 2008 via electronic mail to the following persons:

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**/s/ James M. Andrew**  
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